

December 2018 | Legislative Council Staff

Economic & Revenue Forecast

Presentation to the Joint Budget Committee

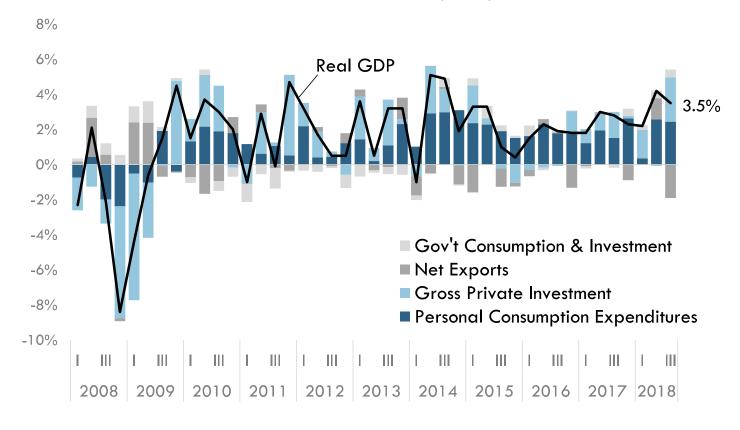
December 20, 2018

Economic Outlook



Strong growth in Q3 pulled down by net exports

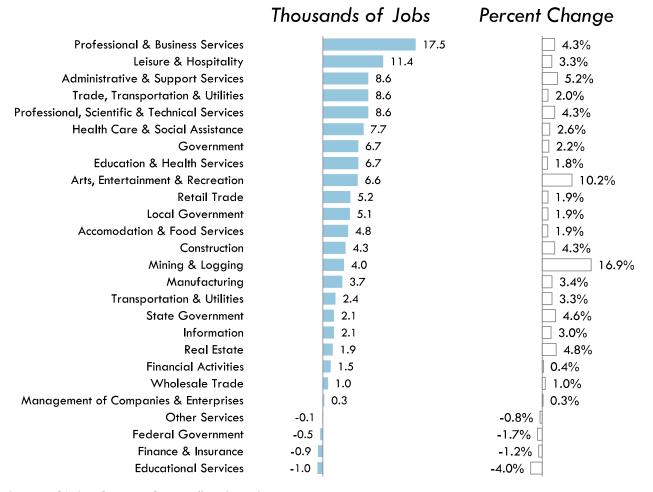
Contributions to Real Gross Domestic Product (GDP)



Source: Bureau of Economic Analysis. Seasonally adjusted annual rates.

Colorado continues to add jobs across industries

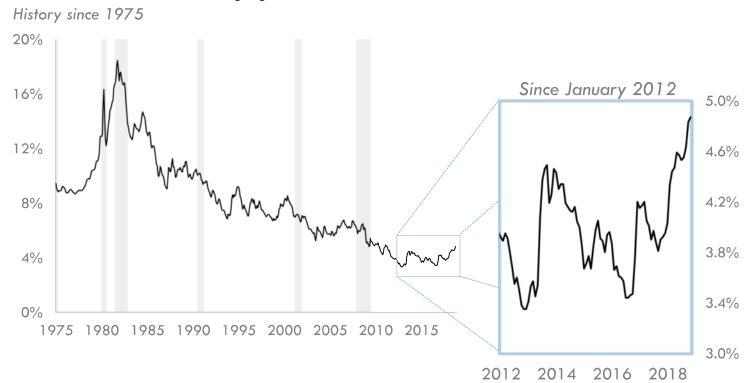
Year-over-Year Change in October 2018



Source: Bureau of Labor Statistics. Seasonally adjusted.

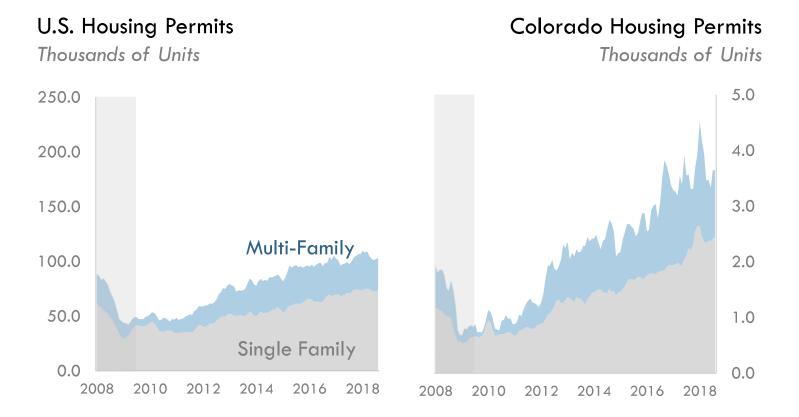
Interest and mortgage rates are on the rise

U.S. 30-Year Fixed Mortgage Rate



Source: Freddie Mac, Primary Mortgage Market Survey. Monthly average.

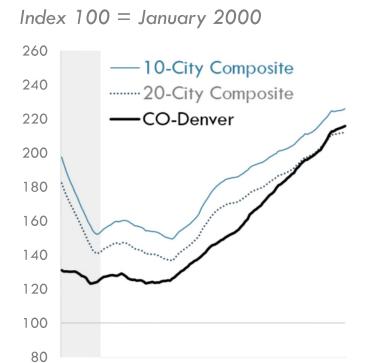
...which is cooling off housing markets.

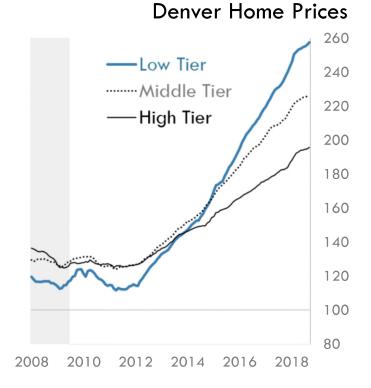


Source: U.S. Census Bureau. Seasonally adjusted three-month moving averages.

Home price increases are beginning to slow

Case-Shiller Home Price Indices

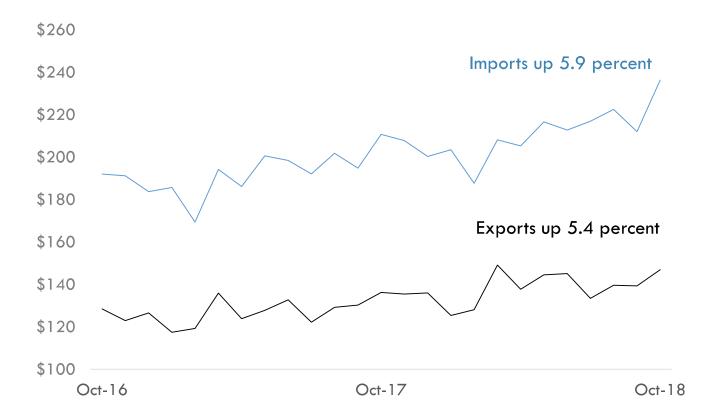




Source: S&P Dow Jones Indices, LLC.

Trade tensions remain high – so does trade activity

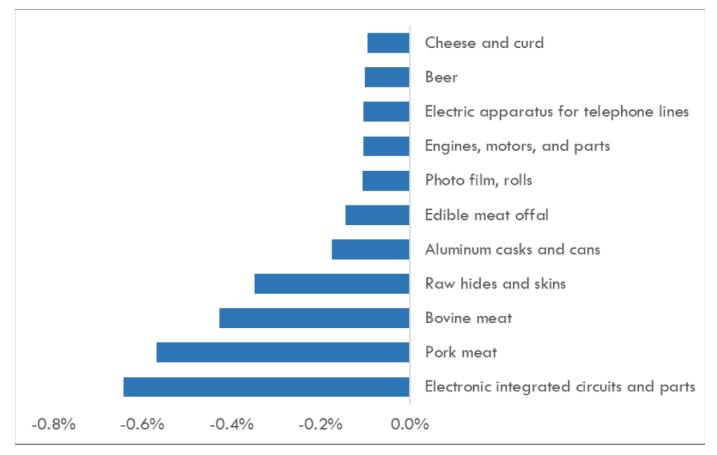
Colorado export and import activity on a monthly basis (dollars in millions); increases from January through October 2018 over the same period last year.



Source: WiserTrade.

Colorado exports subject to tariffs weighing on growth

Contributions to percent change in the value of Colorado exports impacted by tariffs January through October 2018 over the same period last year

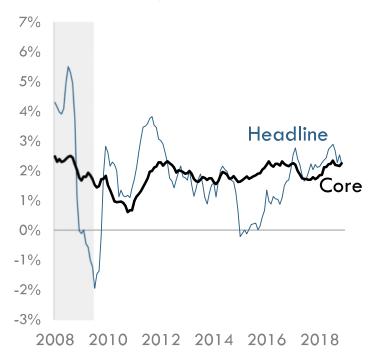


Source: WiserTrade.

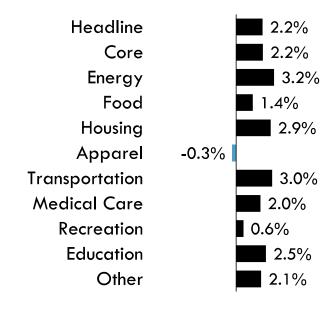
Core inflation has yet to react to tariffs

CPI-U Inflation



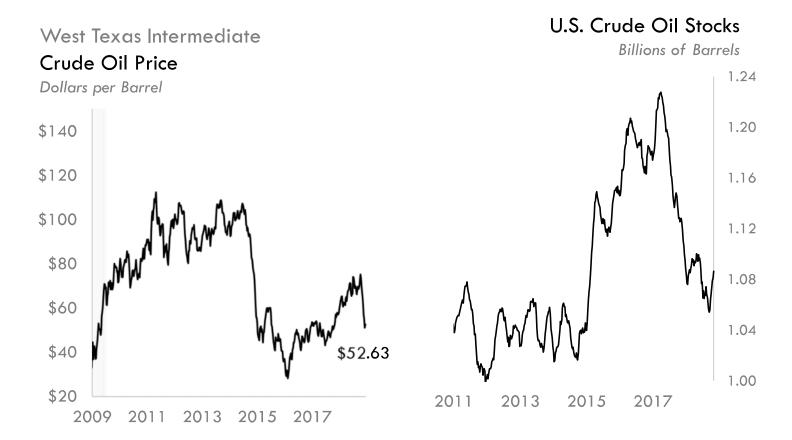


November 2018 over November 2017



Source: U.S. Census Bureau. Seasonally adjusted.

Oil prices have dropped almost 40% since October



Source: Energy Information Administration (weekly average prices).

Economic Summary

The near-term outlook is positive, but moderating

- Growth will continue but at a slower pace
- Low unemployment may constrain further growth
- The housing market is cooling with higher interest rates and construction costs

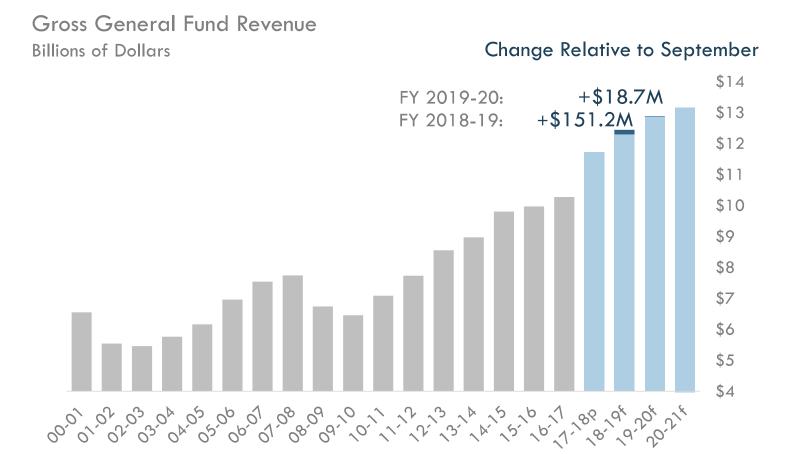
Uncertainties cloud the outlook

- Trade tensions will continue to rattle confidence
- Global economy is slowing down
- Volatility in commodity prices expected to persist

General Fund Budget Outlook

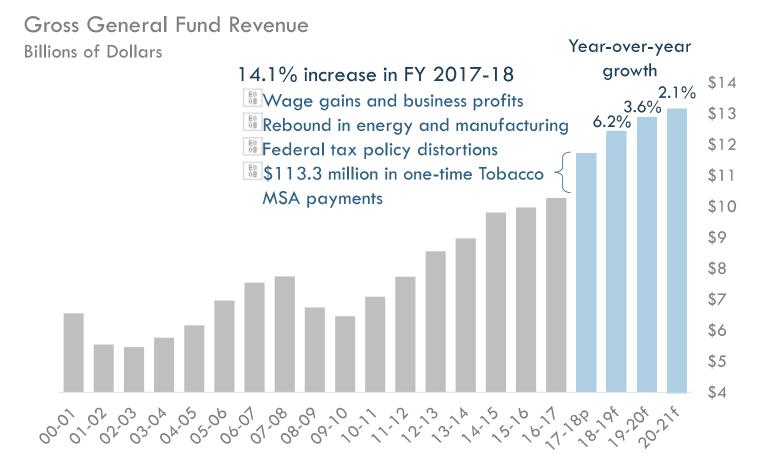


Revenue continues to exceed expectations



Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast.

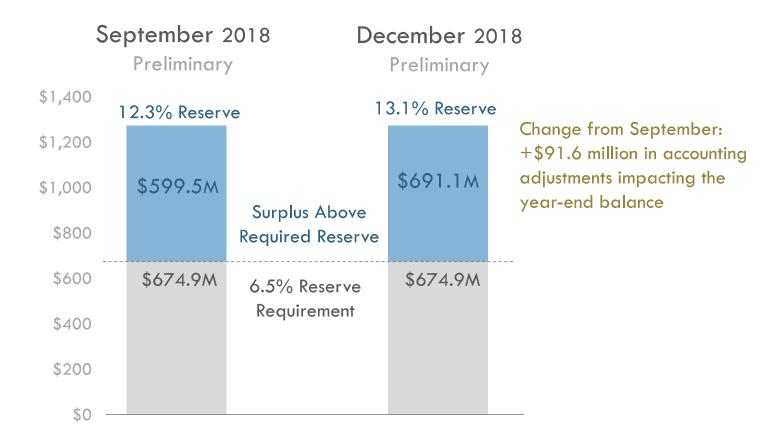
Following double-digit growth in FY 2017-18, revenue growth is expected to moderate



Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast.

Last Year FY 2017-18 General Fund Reserve

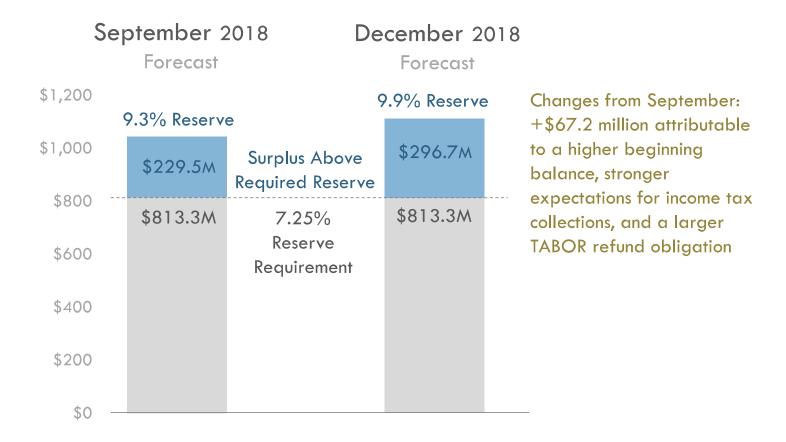
Dollars in Millions



Source: Legislative Council Staff forecasts based on current law.

Current Year | FY 2018-19 General Fund Reserve

Dollars in Millions

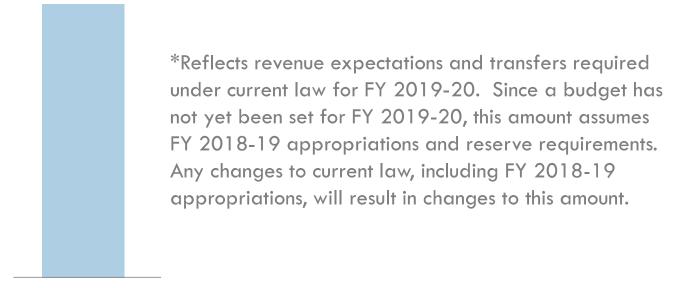


Source: Legislative Council Staff forecasts based on current law.

Next Year FY 2019-20 Budget Outlook

General Fund available above FY 2018-19 appropriations to spend, save, or return to taxpayers





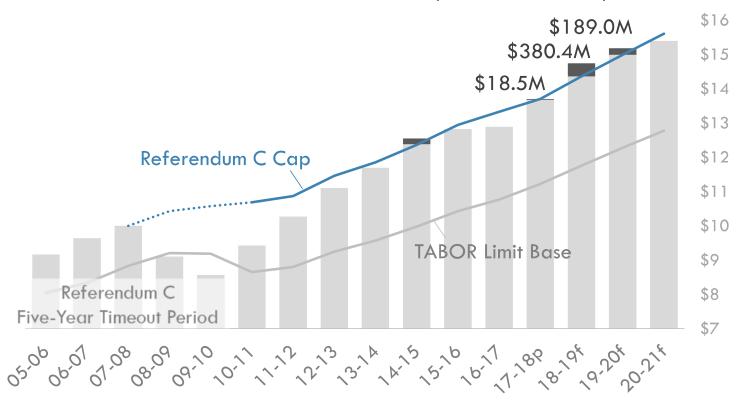
Source: Legislative Council Staff December 2018 forecast based on current law and FY 2018-19 appropriations.

TABOR Outlook

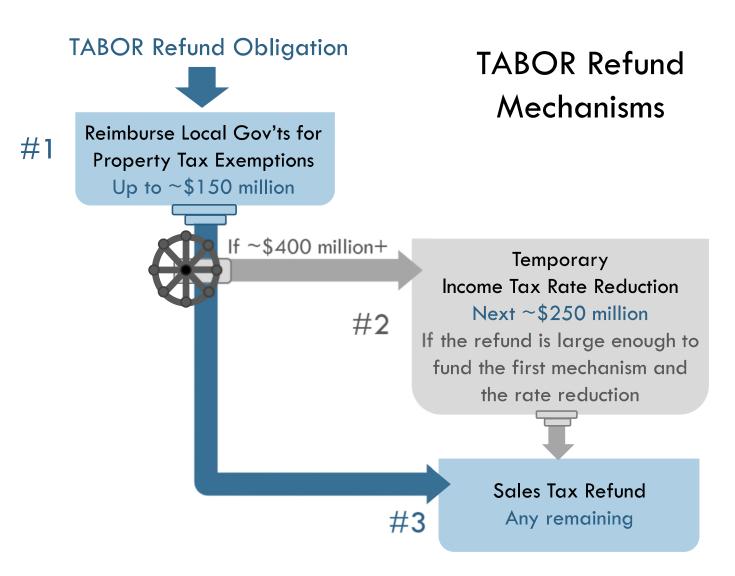
Revenue Subject to TABOR

Dollars in Billions

Expected TABOR Surpluses

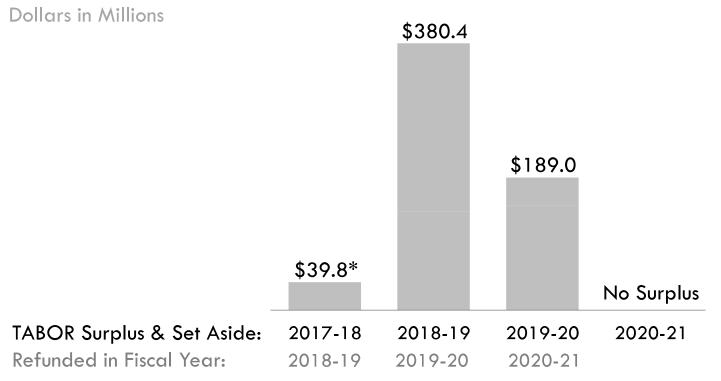


Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast.



TABOR surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year

Expected TABOR Refunds & General Fund Budget Impacts



Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast. *This amount includes the \$18.5 million FY 2017-18 surplus and \$21.3 million in under-refunds from the FY 2014-15 surplus.

TABOR surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year

Expected TABOR Refunds & General Fund Budget Impacts



Source: Colorado Office of the State Controller and Legislative Council Staff December 2018 forecast. *This amount includes the \$18.5 million FY 2017-18 surplus and \$21.3 million in under-refunds from the FY 2014-15 surplus.

Risks to the Forecast

- Current FY 2018-19 risks are skewed to the upside
 - Elevated economic activity will carry into 2019
 - Federal tax policy distortions
 - Out-of-state sales tax collections ...Larger TABOR refunds?
- Longer-term risks are skewed to the downside
 - Slower growth and rising risk of recession as the economic expansion matures
- Higher than usual uncertainty clouds the outlook
 - Unknown impacts of federal tax law changes
 - Out-of-state sales tax collections

K-12 Enrollment Forecast



K-12 Public School Enrollment

Full-Time Equivalent Students

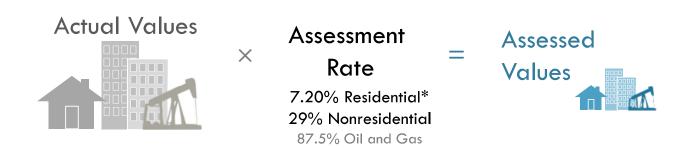
	Actual	Percent	Estimated	Percent	Estimated	Percent	Average
Region	2018-19	Change	2019-20	Change	2020-21	Change	Growth
Metro Denver	478,836	-0.3%	477,174	-0.3%	475,612	-0.3%	-0.3%
Northern	8 7, 551	1.4%	88,737	1.4%	89,812	1.2%	1.3%
Colorado Springs	118,462	0.6%	119,616	1.0%	120,806	1.0%	1.0%
Pueblo	32,099	-1.5%	31,746	-1.1%	31,625	-0.4%	-0.7%
Eastern Plains	25,754	2.9%	26,124	1.4%	36,325	0.8%	1.1%
San Luis Valley	<i>7</i> ,215	0.6%	7,244	0.4%	7,277	0.5%	0.4%
Mountain	24,837	-0.7%	24,953	0.5%	25,050	0.4%	0.4%
Southwest Mountain	13,054	1.0%	13,103	0.4%	13,159	0.4%	0.4%
Western	50,271	-0.1%	50,286	0.0%	50,483	0.4%	0.2%
EGEBOEGGEO EGOEGOEGO (32/52/922 //88/19 (4/62/5/6	838,079	0.1%	838,983	0.1%	840,150	0.1%	0.1%

Source: Colorado Department of Educatino and Legislative Council Staff December 2018 forecast.

Assessed Valuation Forecast

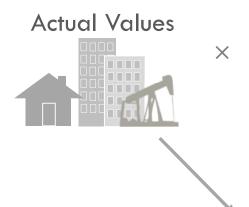


Assessed Values in Colorado



*2018 Residential Assessment Rate

Assessed Values in Colorado



Assessment Rate

7.20% Residential* 29% Nonresidential

87.5% Oil and Gas

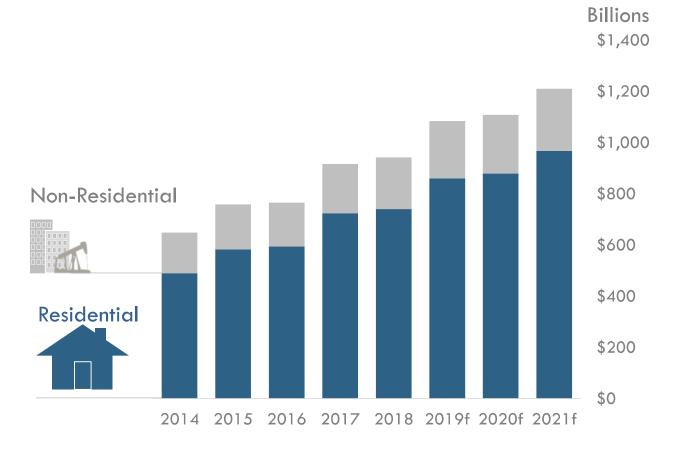


Reassessment Cycle

Tax Yea	r Valuation Date	Assessment Cycle		
2019	July 1, 2018	2019 Re-Assessment Cycle		
2020	July 1, 2018			
2021	July 1, 2020	2021 Be Assessment Cycle		
2022	July 1, 2020	2021 Re-Assessment Cycle		

*2018 Residential Assessment Rate 28

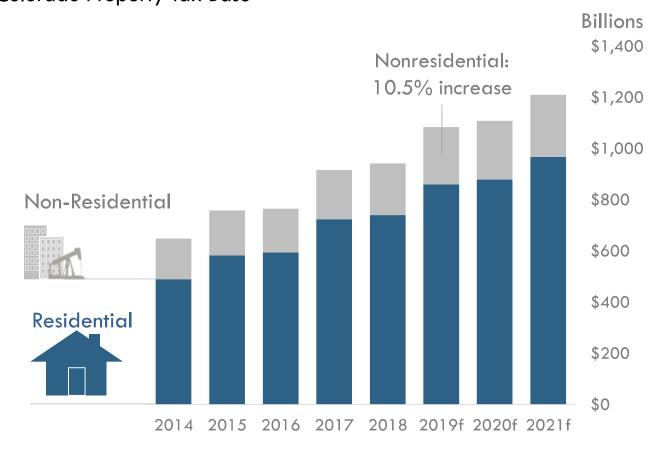
Actual (Market) Values The Colorado Property Tax Base



Source: Division of Property Taxation and Legislative Council Staff December 2018 forecast.

^{*}Calculated as assessed values divided by an assumed 29 percent assessment rate.

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Source: Division of Property Taxation and Legislative Council Staff December 2018 forecast.

^{*}Calculated as assessed values divided by an assumed 29 percent assessment rate.

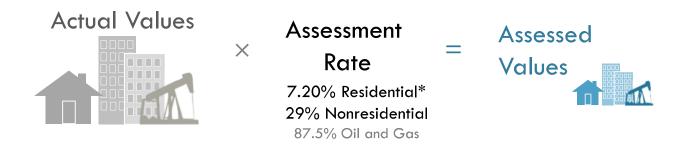
Actual (Market) Values The Colorado Property Tax Base

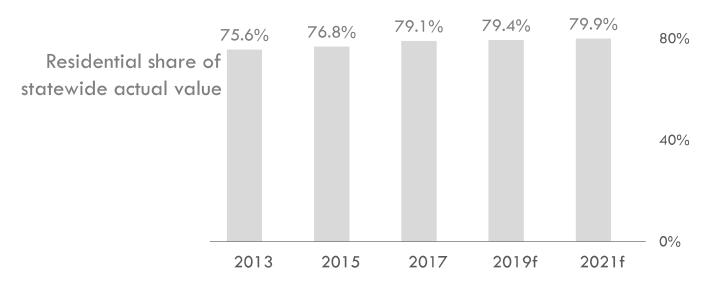


Source: Division of Property Taxation and Legislative Council Staff December 2018 forecast.

^{*}Calculated as assessed values divided by an assumed 29 percent assessment rate.

Share of Residential Value

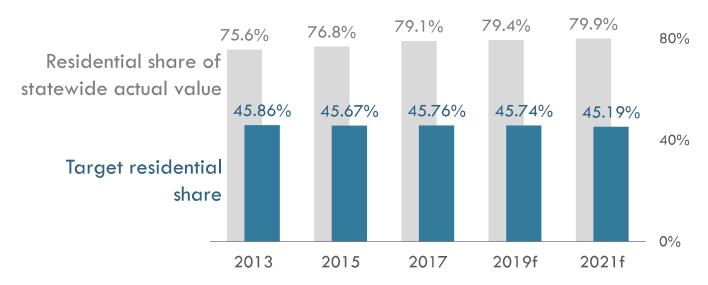




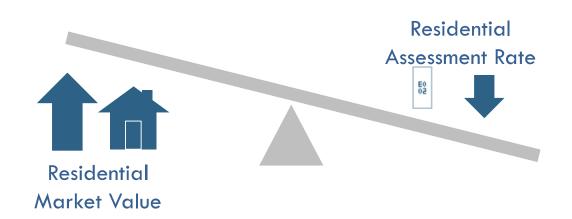
Source: Division of Property Taxation. *2018 Residential Assessment Rate

Share of Residential Value



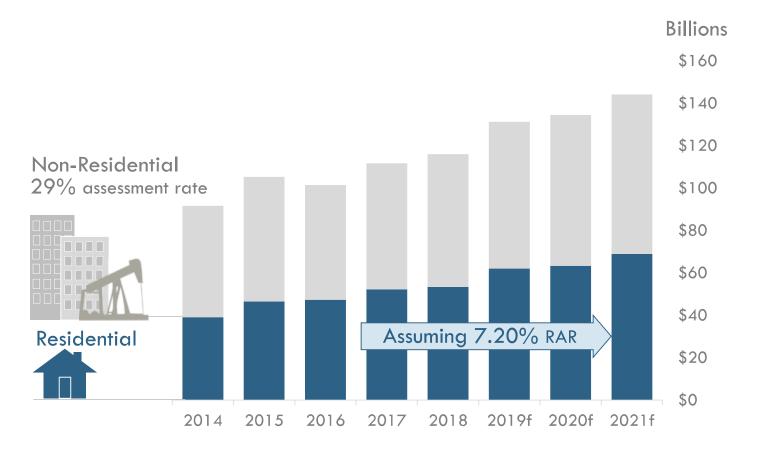


Source: Division of Property Taxation. *2018 Residential Assessment Rate



Assessed Values

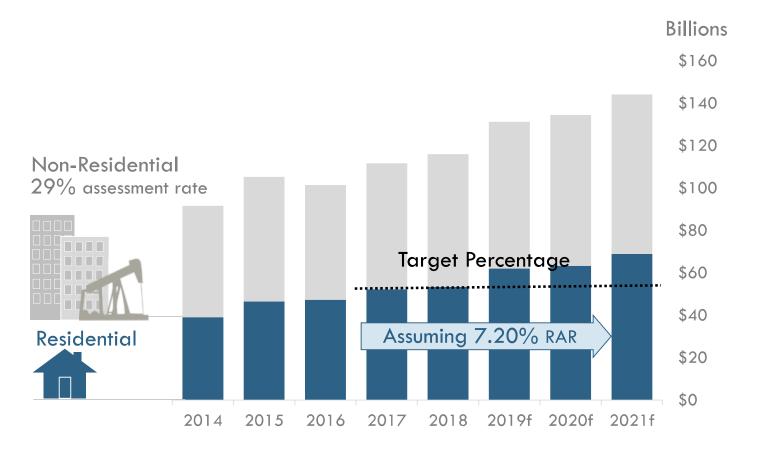
Actual Values × Assessment Rate = Assessed Values



Source: Division of Property Taxation and Legislative Council Staff forecast.

Assessed Values

Actual Values × Assessment Rate = Assessed Values



Source: Division of Property Taxation and Legislative Council Staff forecast.

Assessed Values

Actual Values × Assessment Rate = Assessed Values



Source: Division of Property Taxation and Legislative Council Staff forecast.

2019 RAR = 6.11%

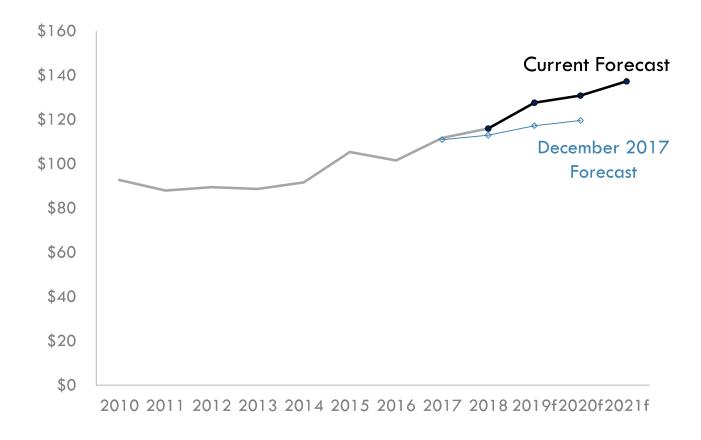
Source: December 2017 Legislative Council Staff forecast.

2021 RAR = 6.41%

Source: December 2018 Legislative Council Staff forecast.

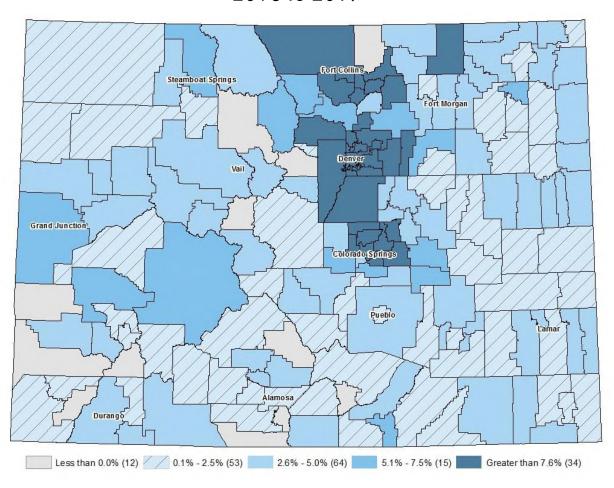
Assessed Value

Forecast Comparison



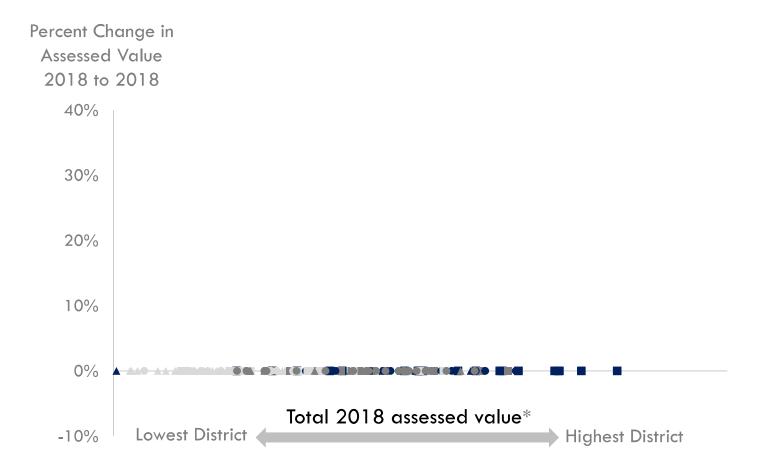
Source: Division of Property Taxation and Legislative Council Staff forecasts.

Change in Total Assessed Values by School District 2018 to 2019



Source: Legislative Council Staff December 2018 forecast.

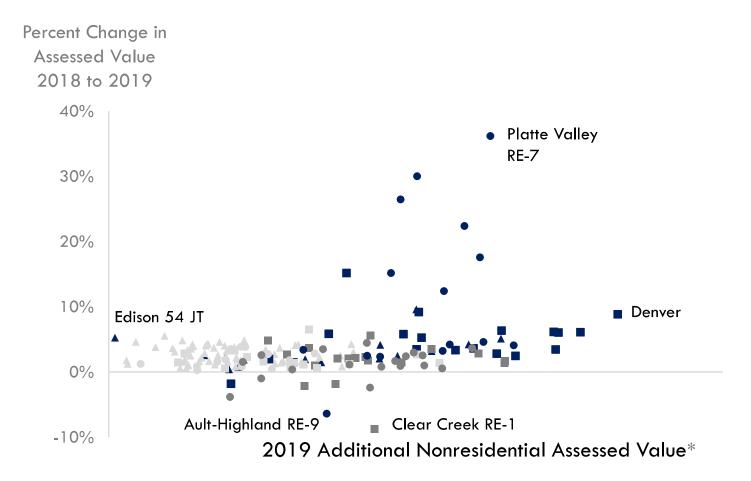
2018 Assessed Value



Source: Legislative Council Staff December 2018 forecast.

^{*}Log of assessed values across school districts.

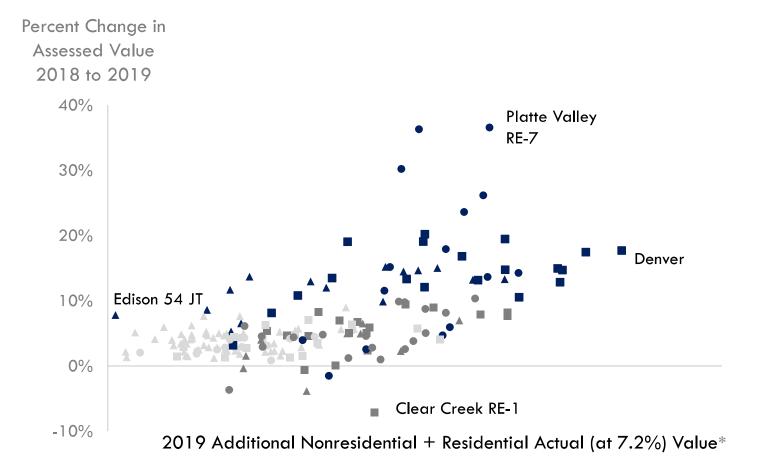
2019 Additional Nonresidential Values



Source: Legislative Council Staff December 2018 forecast.

^{*}Log of assessed values across school districts.

2019 Additional Nonresidential + Residential Actual Value at 7.2%



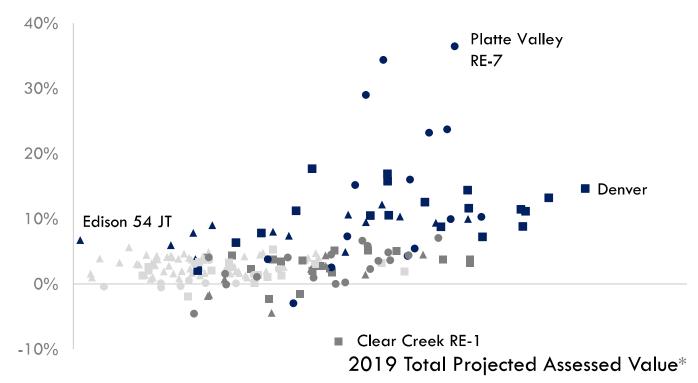
Source: Legislative Council Staff December 2018 forecast.

*Log of assessed values across school districts.

2019 Assessed Value

New Nonresidential + Residential Actual Value at 6.78%

Percent Change in Assessed Value 2018 to 2019



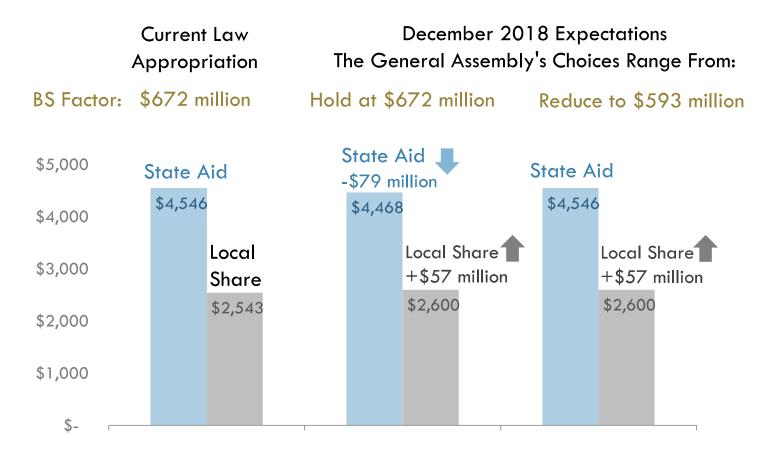
Source: Legislative Council Staff December 2018 forecast. *Log of assessed values across school districts.

School Finance Outlook



Change in Expectations for FY 2018-19 School Finance Funding

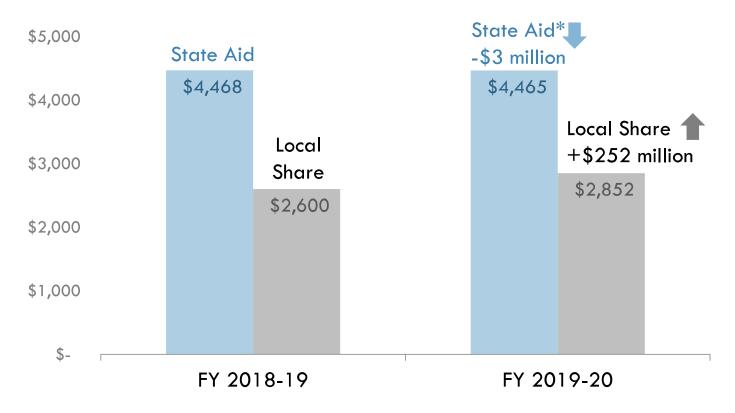
Dollars in Millions



Source: Legislative Council Staff December 2018 forecast.

Year-over-Year Change in School Finance Funding FY 2018-19 to FY 2019-20

Dollars in Millions



Source: Legislative Council Staff December 2018 forecast.

^{*}Assumes a constant Budget Stabilization Factor.

Implications for Balancing General Fund (GF) and State Education Fund (SEF) Contributions in 2019-20

- \$79M from 2018-19; \$3M drop in state aid requirement in 2019-20 year-over-year leaves many options available.
- Reducing 2018-19 SEF spending by \$79M implies \$75 million (1.9%) GF reduction in 19-20.
- Reducing BS Factor by \$79M implies \$83M (2.1%)
 GF increase in 2019-20.

Adult Corrections Population Forecast



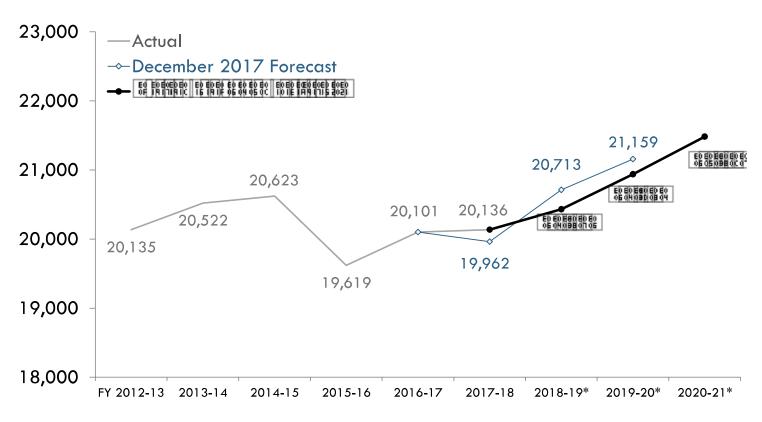
The June 2018 prison population exceeded expectations

- Year-end FY 2017-18 population exceeded 2017 forecast
 - June 30, 2018, population was 20,136, above our forecast by 174 inmates
 - 89% of June 2018 error was attributable to
- FY 2018-19 population is tracking below 2017 forecast
 - November 30, 2018, population was 20,069, below our forecast by 223 inmates
 - 133% of November 2018 error was attributable to 開開開報

Source: Department of Corrections and Legislative Council Staff December 2017 forecast.

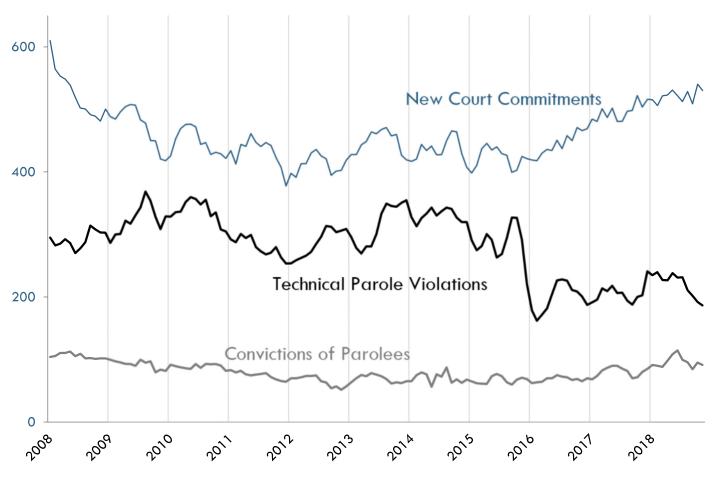
Inmate population growing on new court commitments

Adult Inmate Population Forecasts as of June 30



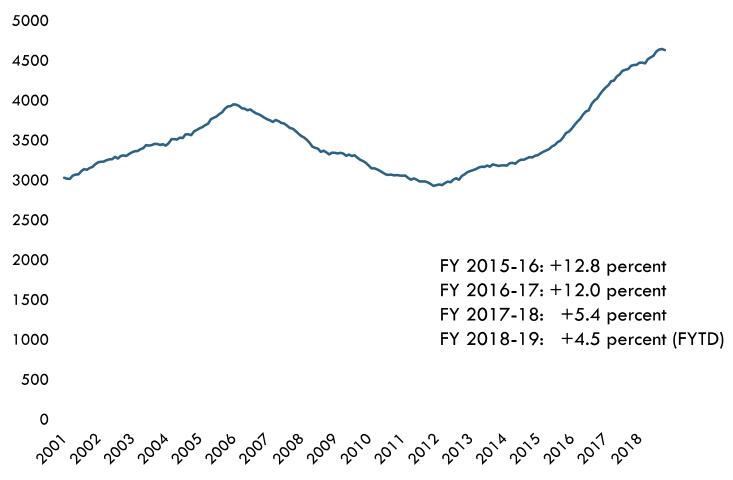
Source: Department of Corrections and *Legislative Council Staff December 2018 forecast.

Court commitments drove population growth in FY 2017-18



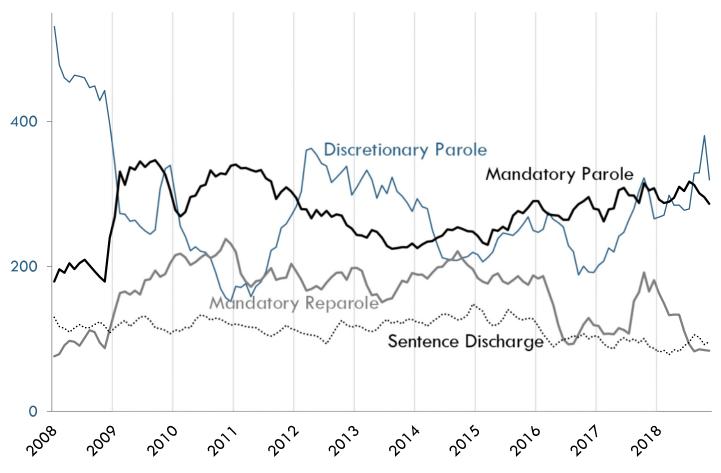
Source: Department of Corrections; 3-month moving average.

However, felony case filings are slowing...



Source: Judicial Department; 12-month moving average.

Discretionary releases to parole spiked this fall



Source: Department of Corrections; 3-month moving average.

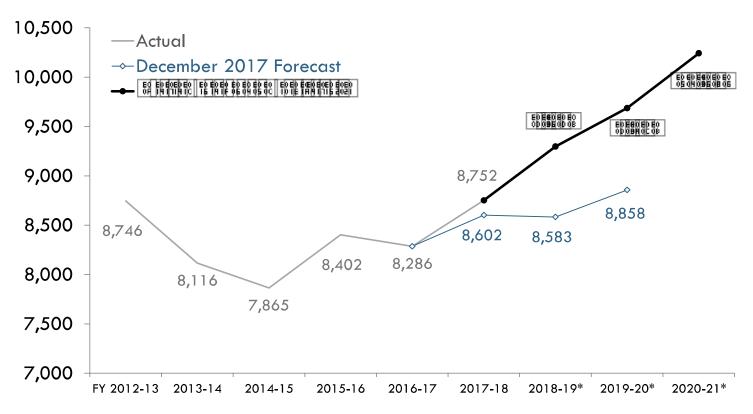
Prison population will increase from present levels

- New court commitments are expected to continue to increase
 - Above-trend releases will alleviate some upward pressure on the prison population, but won't be sufficient to offset admissions
- Parole population will increase correspondingly
 - Releases have generated a significantly higher parole population than expected in last year's forecast

Source: Legislative Council Staff December 2018 forecast.

Parole caseload growth projections revised upward

Adult Parole Caseload Forecasts as of June 30



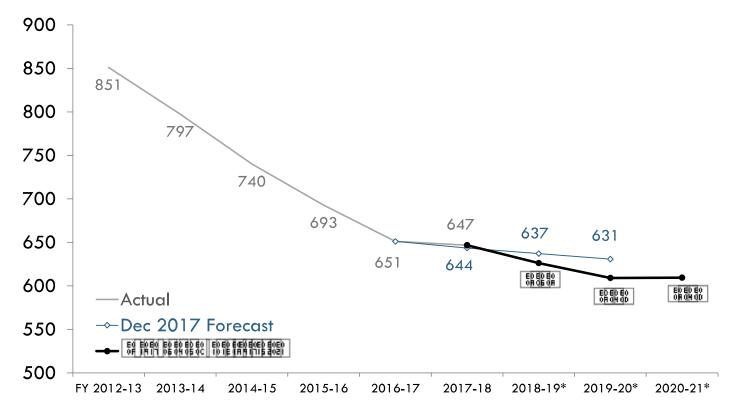
Source: Department of Corrections and *Legislative Council Staff December 2018 forecast.

Juvenile Corrections Population Forecast



DYS commitment population declining more slowly

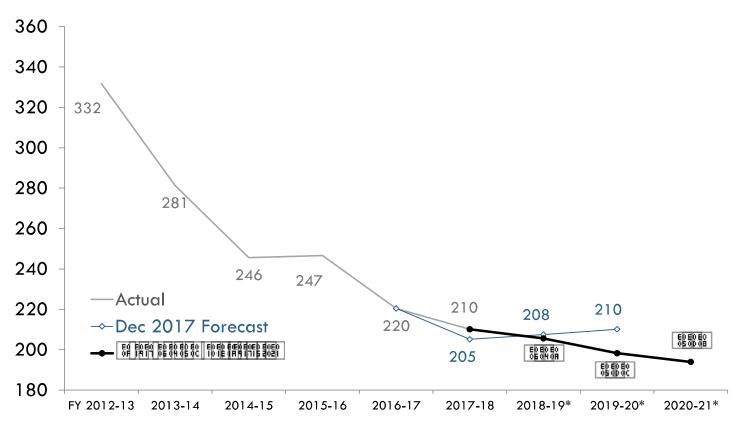
Juvenile ADP REFERENCE Population Forecasts by Fiscal Year



Source: CDHS Division of Youth Services and *Legislative Council Staff December 2018 forecast.

Falling commitments decreasing the parole population

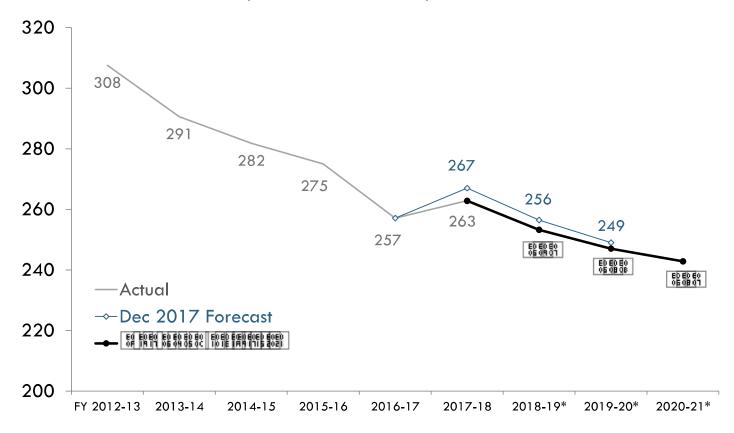
Juvenile ADP 即時間Population Forecasts by Fiscal Year



Source: CDHS Division of Youth Services and *Legislative Council Staff December 2018 forecast.

DYS detention population expected to fall slightly

Juvenile ADP Population Forecasts by Fiscal Year



Source: CDHS Division of Youth Services and *Legislative Council Staff December 2018 forecast.

Questions?

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